

# 388  
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*Attachment to*

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## H I G H L I G H T S

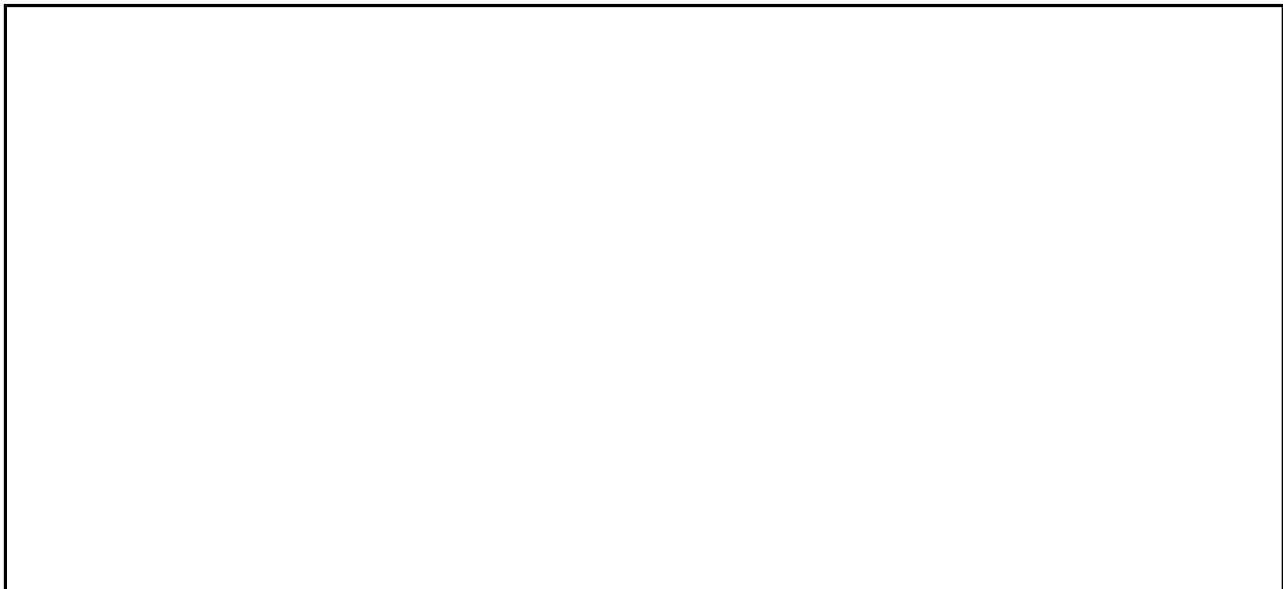
The development of friendlier Italo-Yugoslav relations appeared no closer this week as the long stalemated issue of Trieste once again inflamed popular feeling in both countries (see page 3). During preliminary efforts to lay the groundwork for Italo-Yugoslav negotiations on Trieste, Yugoslavia made it clear that it would insist on retaining Zone B, and political considerations still prevented Italy from openly negotiating on any other basis than the Western-sponsored 1948 proposal that all Trieste be ceded to Italy.

In other areas of the world, no startling changes occurred in the situations most directly affecting US security. A review of Chinese Communist relations with the nations of Southeast Asia reveals that the Peiping regime is gradually strengthening its ties with local Communist movements and attempting to weld the Overseas Chinese communities into useful instruments of Chinese Communist policy (see page 5).

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### TRIESTE

**Crisis Possible** The long stalemated issue of Trieste has once again flared into the open, and the danger exists that strong Yugoslav and Italian feeling over the disposition of the territory may provoke a crisis which would not only impede the development of closer Italo-Yugoslav relations but would be detrimental to US interests in the Adriatic area. During preliminary efforts to lay the groundwork for Italo-Yugoslav negotiations on Trieste, it has been made clear that Yugoslavia will insist on retaining all of its zone while agreeing to Italian possession of Zone A, including the city of Trieste. Italy, however, continues to insist that negotiations be on the basis of the Western-sponsored 1948 proposal to return all of the Free Territory to Italy. The recent publicity given the issue has inflamed popular opinion in both countries and has increased the difficulty of a compromise. Yugoslav prestige is at stake,

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## TRIESTE

and the Yugoslavs feel confident that the West will not resort to force to eject Yugoslavia from Zone B. Meanwhile, Italian public opinion is becoming so aroused over the possibility that Yugoslavia might annex Zone B that the Italian Government cannot afford the risk of concessions at this time, particularly in the face of the growing Communist threat to its stability and the ability of the Communists to exploit any weakening of the Italian position on Trieste. Although the stand taken by Italy and Yugoslavia thus appears to have crystallized, neither country wishes to let the situation get out of hand. The Italians are aware of Yugoslavia's strategic and political significance in the cold war, and the Yugoslav leaders do not want to alienate Western support at this juncture in their fight against the Cominform. Formal negotiations aiming at a de jure settlement, however, will probably be shunned by both parties because of fear of serious domestic repercussions.

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## COMMUNISM IN SOUTHEAST ASIA

The Chinese Communist regime in Peiping is already taking active measures to support the "national liberation" movements throughout Southeast Asia. Moral and material aid is being furnished in varying degrees and in general the Chinese Communists are strengthening their ties with local Communist movements and are gradually welding the Overseas Chinese communities into useful instruments of Chinese Communist policy. The degree of Communist penetration and current trends in Chinese Communist relations with the several Southeast Asian states are summarized below.

**Indochina** Although the Ho regime has been receiving some support from the Chinese Communists in the form of arms deliveries and the free movement of resistance troops back and forth across the China border, there is no firm evidence that the Chinese Communists are moving their own troops across the border or planning to do so in the near future. Politically, the Chinese Communists and the Ho regime have accorded each other de jure recognition, but have not as yet exchanged diplomatic missions or concluded any form of treaty or agreement. Steps may soon be taken (or may already be in process) to formalize these relations; when this occurs, Chinese Communist support for the Ho forces will probably increase.

**Thailand** Thailand has not recognized the Peiping regime and has shown, of late, a rather firm disposition to resist Communist psychological pressure. The Peiping regime does not appear especially interested in establishing diplomatic relations with Thailand, even though such a move could facilitate the acquisition of Thai rice. Within Thailand,

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as elsewhere in Southeast Asia, the Overseas Chinese community continues to be a special target of Chinese Communist propaganda and organizational activity. Communist agents are proceeding with a program of infiltration, not only of the Chinese community, but also of trade unions, youth groups, and other organizations which can be exploited to the disadvantage and embarrassment of the Thai Government. If Thailand should receive US military aid or participate in a non-Communist association of Asiatic states, the Chinese Communists would increase their pressure on Thailand through propaganda, and possibly through the stimulation of internal disturbances.

Malaya      There is evidence that the Chinese Communists have been infiltrating agents into Malaya to support the terrorist movement and to gain influence in trade unions and other organizations. The Malayan Chinese, who make up nearly half the total population of the Malayan peninsula, are responding favorably to Chinese Communist efforts to win support and sympathy for Peiping, and the morale of the terrorists appears to have risen somewhat as a result of the growing prestige and aggressiveness of the Chinese Communists. Chinese Communist support for the "liberation" movement in Malaya, however, is complicated by the fact that the terrorist organization is composed almost exclusively of Chinese and is opposed as much by the native Malayans as by the British, with the result that Communist propaganda in favor of Malayan nationalism has a rather hollow sound. The campaign to win the Chinese half of the population to the Communist cause will continue in vigorous fashion and will succeed in proportion as the Peiping regime can solve its internal problems and maintain the prestige of a dynamic political movement. There is, however, no early prospect that the Chinese Communists will recognize the terrorists as the "government" of the Malayan peninsula.

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Burma      Burma recognized the Chinese Communist regime on 17 December 1949, but the establishment of diplomatic relations between the two governments has not yet been accomplished. As a result of the establishment of a "purified" Burmese Communist regime at Prome, the Peiping regime may stall on the formalization of its relations with Burma in the hope that the Prome regime survives and flourishes. Peiping may then recognize that regime as the "government" of Burma, and ignore the Rangoon authorities altogether.

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Indonesia

Despite internal instability, the USI does not appear to be vulnerable in any important degree to armed Communist activity, nor could armed groups receive significant assistance from the Asiatic mainland. Communist strategy for the USI appears to turn on the establishment of diplomatic relations with Jakarta and the eventual staffing of Soviet and Chinese Communist missions there, from which organizational and propaganda work will be carried on among both the Overseas Chinese and native Communist and leftist movements. The USI will delay the actual exchange of diplomatic missions with both the USSR and the Peiping regime as long as possible because of a keen awareness among many USI officials of the dangers of allowing Communist officials from abroad to establish direct contact with local dissident elements.

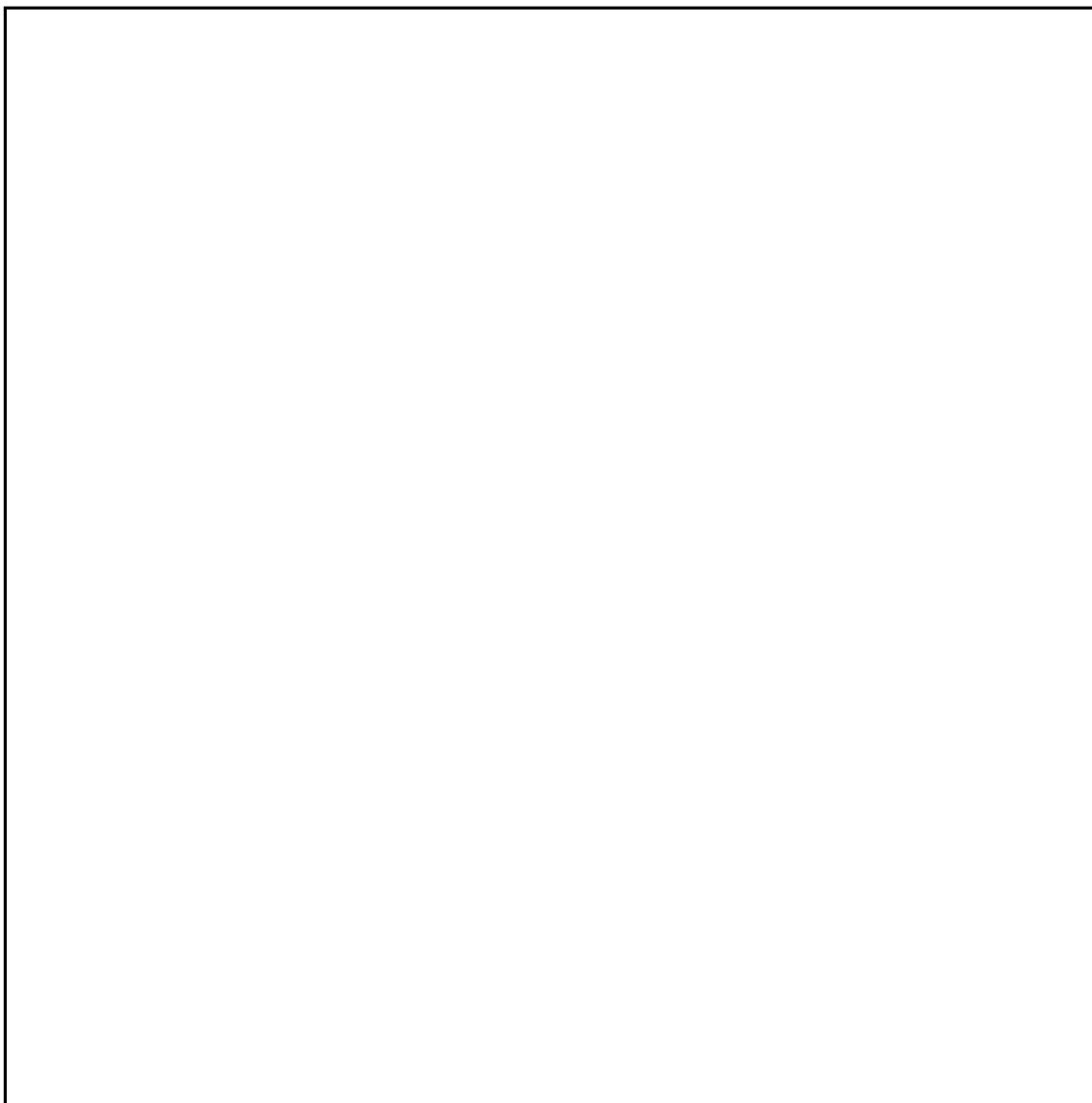
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The Philippines      The Philippine Government has not recognized the Chinese Communist regime and has given no indication that it will do so in the near future. The Philippine response to the establishment of a Communist state on the Chinese mainland has been mainly one of fear that the Overseas Chinese in the Philippines would align themselves with the Chinese Communists and become a menacing fifth column within the islands. The Quirino regime has taken steps to restrict Chinese immigration sharply and to deport Chinese who are under suspicion for illegal entry or subversive activities. There are some indications that the civil liberties of the Chinese community may be seriously abridged, a development which would draw the full wrath of the Chinese Communist propaganda machine. While conclusive evidence of direct Chinese Communist support for the local Huk rebellion in the Philippines is lacking, it is almost certain that some liaison exists.

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## CHINA

**Sinkiang Status** The thirty-year pact establishing two joint Soviet-Chinese companies in Sinkiang points to the special Soviet interest in this mineral-rich province as well as to the Kremlin's desire to obtain the same degree of economic control over Sinkiang's economy as it exercises over its European Satellites. Although the area has never been developed, Sinkiang is believed to contain the richest of China's meager oil deposits and also possesses other mineral resources, including non-ferrous metals. The joint companies established to develop these resources are similar in nature to those in the European Satellites and provide the USSR with a basis for gradually extending its control over the entire Sinkiang economy.

## INDOCHINA

**Cabinet Shift** Although there has been little change in the military stalemate between the French and the forces of the Vietnamese resistance, recent political developments have not been altogether favorable to the French. The French-sponsored Emperor Bao Dai, who has been facing both Cabinet resignations and an intransigent attitude on the part of Premier Long, [redacted]

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## INDONESIA

**Makassar Revolt** Although the situation at Makassar remains confused following the recent uprising, the political tension which was the basic cause of the revolt appears to have subsided.

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[redacted] With all official statements deplored the revolt against USI authority, a peaceful political settlement of the Makassar uprising is possible. If such a settlement is not forthcoming, however, the USI is prepared to undertake large-scale punitive action in order to settle the Makassar affair.

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## W E S T E R N H E M I S P H E R E

### BOLIVIA

**Communist Plot** The announcement of the discovery of a Communist plot against the government appears to be merely a new stage in the Bolivian Government's current campaign to combat all opposition groups by connecting them with alleged Communist plots. By such charges, the government also hopes to quiet increasing labor unrest and to impress the US with Bolivia's need for financial assistance. Although many aspects of the Bolivian situation are propitious to Communist activity--the unfavorable reaction to the recent currency devaluation, a threatened general strike, and the unfavorable prospects of the Bolivian tin industry--the Communists in Bolivia are still not strong enough to constitute a serious threat to the government. Their only importance at this time is the contribution they can make to the already powerful opposition to the present government.

### ECUADOR

**Regime Threatened** Confronted with growing popular discontent and serious economic difficulties, the pro-US Galo Plaza administration in Ecuador continues in office largely because the army and civilian groups conspiring against it are still divided and no single one is strong enough to overthrow the government. Although economic conditions may eventually improve as the quantity and quality of Ecuador's exportable agricultural products improve, present economic prospects are poor because of such recent developments as: (1) severe floods in March

## ECUADOR

that paralyzed rail transportation between Guayaquil and Quito; (2) the plans of the Shell Oil Company to end explorations in the Oriente unless sufficient oil is found by the end of April; and (3) the fact that the South American Development Company, which employs 20,000 persons, will soon terminate its gold mining program. Focal point of anti-government activity is a newly formed political party (Partido del Pueblo) led by Carlos Guevara Moreno, who is backed by Guayaquil bankers and businessmen. Col. Alfaro, Deputy Chief of the Armed Forces, is another threat. In addition to stirring up trouble within the army, he has recently made an alliance with the Socialist Party and can probably count on some support from left-wing members of the Liberal-Radical Party. Although increased unrest and dissatisfaction could provoke a revolution at any time, it is unlikely that the two leading opposition groups will get together in the immediate future.

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## FRENCH ECONOMIC PROBLEMS

Despite impressive gains in economic recovery, France must still overcome numerous basic obstacles if it is to have a stable and self-supporting economy by 1952, when the European Recovery Program ends. The danger of renewed inflation is the most serious economic problem facing the government, which must also find means of lowering production costs, augmenting dollar earnings, and curbing the revival of cartels, which are likely to render trade liberalization measures less effective.

Implementation of the French Assembly resolution of 28 March calling on the government to ease credit restrictions will assist small and medium enterprises in meeting higher tax and wage payments, but is also likely to give new impetus to inflationary pressures. The government, influenced by strong support for the proposal from the Radical Socialists and by popular apprehensions that unemployment (still negligible) will continue to rise, has already authorized the Bank of France to raise rediscount ceilings.

Premier Bidault's productivity bonus proposal has focussed attention on the need for increasing efficiency in all economic activities. For example, deeply-rooted obstacles which are responsible for the fact that French industrial productivity is only one-fourth that of the US must be overcome. These factors include: (1) the general conviction in labor ranks that increased efficiency will lead to unemployment; (2) the tendency, especially of small businessmen, to prefer restricted operations at high unit costs and profits; and (3) the magnitude of the technical and institutional reforms necessary to increase plant efficiency and production. The Bidault proposal has, however, emphasized the urgent need for increasing productive efficiency as the only effective means of raising the standard of living.

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French efforts to augment dollar earnings will be largely unsuccessful not only until productive efficiency can be increased but until other long-range reforms in the French economy can be accomplished. French businessmen must be educated to the concept of mass production and sales rather than of limited but sure markets. Moreover, administrative export procedures must be simplified and raw material production developed in the Overseas Territories.

Another threat to greater efficiency in French production and full economic recovery is the increasing support in France for the revival of the prewar system of European cartels. Powerful French business interests as well as labor are still firmly wedded to the belief that unlimited competition will be detrimental to their interests. The steady growth of cartels, by keeping production costs high and perpetuating weak industries, will impede the liberalization of trade and the rationalization of production in Europe.

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